MULTIMEDIA UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

# FINAL EXAMINATION

**TRIMESTER 3, 2019/2020**

## DFA5034 – FINANCIAL ACCOUNTING 3

( For Diploma Students Only )

9 JUNE 2020
9.00 a.m. – 12.00 p.m.
(3 Hours)

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**INSTRUCTIONS TO STUDENT**

1. This question paper consists of **7** pages with **4** questions.
2. Write your answers in the answer booklet provided.
3. Answer ALL questions.

## QUESTION 1

### Part A

Binacom Company records its Comparative Statement of Financial Position as at 31 December as below:

**Binacom Company**
Comparative Statements of Financial Position as at 31 December

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Property, Plant and Equipment | | |
| Land | RM320,000 | RM320,000 |
| Equipment | 242,000 | 210,000 |
| Accumulated Depreciation | (65,000) | (36,800) |
| Total Property, Plant and Equipment | 497,000 | 493,200 |
| Current Assets | | |
| Cash | 208,000 | 110,400 |
| Accounts Receivable | 102,000 | 87,600 |
| Inventories | 134,000 | 126,800 |
| Prepaid Expenses | 42,000 | 30,000 |
| Total Current Assets | 486,000 | 354,800 |
| Total Assets | RM983,000 | RM848,000 |
| **Liabilities and Stockholders' Equity** | | |
| Current Liability | | |
| Accounts Payable | RM165,000 | RM66,000 |
| Non-Current Liability | | |
| 4% Bonds Payable | 300,000 | 250,000 |
| Total Liabilities | 465,000 | 316,000 |
| Stockholders' Equity | | |
| Ordinary Shares | 300,000 | 300,000 |
| Retained Earnings | 218,000 | 232,000 |
| Total Equity | 518,000 | 532,000 |
| Total Liabilities and Stockholders' Equity | RM983,000 | RM848,000 |

Additional information:

1. Cost of goods sold and net income for year 2019 were RM287,000 and RM135,000 respectively.
2. Cash dividends on ordinary shares for 2019 were declared and paid at RM30,000.
3. Income taxes expenses is RM40,500 and interest on bonds payable at the rate of 4%.
4. Additional equipment has been purchased during year 2019 at RM32,000 but land remained unchanged.

**Required**

(a) Prepare a vertical analysis for Binacom Company's Statement of Financial Position in columnar form for both years.

(8 marks)

**Continued…**

(b) Compute the following ratios for 2019: (Show all your workings)
   i) Current ratio
   ii) Acid-test ratio
   iii) Inventory turnover
   iv) Return on assets
   v) Times interest earned
   vi) Return on common stockholders' equity.

(9 marks)

(c) Ratio analysis can be used to analyse the primary financial statements to evaluate liquidity, profitability, and solvency. Describe these **THREE (3)** classifications of financial ratios.

(3 marks)

**Part B**

OXO Company borrows RM250,000 from BIMB Bank by signing a 9-month, 9%, interest-bearing note on 1 March 2020. The company makes an adjusting entries on 30 June 2020 in order to prepare the semi-annual financial statements. On 30 November 2020, after recording the remaining interest accrued, OXO Company makes a payment of the note at maturity period on 1 December 2020.

**Required**

Prepare the related journal entries to record the transactions described above. Show all your workings.

(5 marks)

(Total: 25 marks)

**QUESTION 2**

**Part A**

Jack Tan Shop is selling online handphone accessories on Lazada since 2018. The following data pertaining to units in its inventory with costs and net realizable values at 31 January 2020.

| Items | Quantity on Hand | Cost per Unit (RM) | Net Realizable Value per Unit (RM) |
|---|---|---|---|
| Silicon Phone Case | 120 | 25.00 | 29.00 |
| Charging Cable Micro Usb | 340 | 8.00 | 9.00 |
| Xiaomi Powerbank | 60 | 50.00 | 54.00 |
| Desk Mount Holder Tablet Stand | 150 | 19.00 | 18.00 |
| Phone Finger Holder | 80 | 32.00 | 30.00 |
| Tempered Glass Screen Protector | 200 | 12.00 | 10.50 |

**Required**

Determine the cost of ending inventory by applying the lower-of-cost-or-net realisable value.

(5 marks)

**Continued…**

**Part B**

IlaAli Fruits Supplier is a company that supply fresh local and imported fruits, including premium and seasonal fruits to all retailers in Penang. As at 1 April 2020, the company records its beginning inventory 1,800 boxes at the total cost of RM21,600.

The following information is available for the inventory that have been purchases and sales in the month of April 2020.

| Date | Explanation | Quantities | Cost per box |
|---|---|---|---|
| 3 | Purchases | 2,500 boxes | RM13.00 |
| 7 | Purchases | 2,400 boxes | RM13.50 |
| 14 | Purchases | 1,600 boxes | RM14.00 |
| 20 | Purchases | 2,700 boxes | RM15.00 |
| 28 | Purchases | 2,500 boxes | RM15.60 |

Total sales made in April is 8,100 boxes which consist of sales on 11 April for 4,800 boxes at RM30 per box and on 24 April for 3,300 boxes at RM35 per box.

**Required**

(a) Determine the cost of ending inventory and the cost of goods sold at 30 April 2020 using the FIFO method, assuming company uses a *periodic inventory system*. Show all your workings.

(7 marks)

(b) Prepare a schedule to show the cost of goods sold and the of ending inventory for the month of April 2020 using the average cost method, assuming company uses a *perpetual inventory system.*

(9 marks)

(c) What is the effect of inventory error towards the the computation of cost of goods sold and net income? State whether it is understated or overstated.

| ***When Inventory Error:*** | Effect in ***Cost of Goods Sold*** | ***Effect in Net Income*** |
|---|---|---|
| Understates beginning inventory | | |
| Overstates beginning inventory | | |
| Understates ending inventory | | |
| Overstates ending inventory | | |

(4 marks)

(Total: 25 marks)

**Continued…**

## QUESTION 3

### Part A

Debt and stock investments are reported in financial statements based on their categories of securities. For purposes of valuation and reporting, debt investments are classified into two categories which classified as trading and non-trading securities.

### Required

Explain **THREE (3)** differences between trading securities and non-trading securities and how it is reported in financial statements.

(6 marks)

### Part B

Dayang Corporation had the following transactions pertaining to investment for the year 2018 and beginning of 2019. Assume all investments are short-term and are readily marketable.

**2018**

| | |
|---|---|
| Jan 1 | Invested 40, 10%, RM1,000 Edutec Corporation bonds for RM40,000 cash plus brokerage fees of RM800. Interest is paid semiannually on every Jul 1 and Jan 1. |
| 1 | Invested 1,000 shares in UWC Corporation for RM20,000 cash and owns less than 20% ownership. UWC Corporation declared and paid dividend annually. |
| Jul 1 | Accrued the first semiannual interest on Edutec Corporation bonds purchased on Jan 1. |
| Oct 31 | Sold 400 shares in UWC Corporation for RM10,600 cash. |
| Dec 31 | Received cash dividend for RM0.50 per share based on the latest shares amount from UWC Corporation. |
| 31 | Accrued the second semiannual interest on Edutec Corporation bonds purchased on Jan 1. |

**2019**

| | |
|---|---|
| Jan 1 | Received interest payment from Edutec Corporation in cash. |
| 1 | Sold 10 of the Edutec Corporation bonds for RM9,000 cash. |

### Required

Journalise the above transactions. Show all workings.

(10 marks)

**Continued…**

**Part C**

Widad Company has the following data at 31 December 2019 for its securities.

1) Widad acquired trading securities; 18% of the outstanding ordinary shares of Hartalega Corporation on 1 January 2019 by paying RM1,000,000 for 50,000 shares. However, Widad cannot exercise significant influence over Hartalega Corporation.

   Hartalega reported net profit of RM420,000 for the year. Hartalega declared and paid a RM1.20 per share cash dividend on 31 December 2019. On 31 December 2019 the market price of Hartalega's ordinary shares is RM18 per share.

2) On 1 June, purchased a 30% of equity in Careplus Corporation with 50,000 outstanding shares of ordinary shares at RM9 per share. On 31 December, Careplus Corporation declared and paid a cash dividend of RM40,000. Careplus Corporation reported a net profit of RM240,000 for the year.

**Required**

Prepare all the necessary journal entries for Widad Company to record its investment transaction in Hartalega Corporation and Careplus Corporation. Show all workings.

(9 marks)

(Total: 25 marks)

**QUESTION 4**

**Part A**

Two young architects, Danish and Darwish have formed D&D Architect, where their capital balances are RM300,000 and RM280,000 respectively, at 1 January 2019.

On 1 June 2019, the following transactions have been recorded in D&D Architect:

i. Danish and Darwish withdrew cash RM48,000 and RM52,000 respectively.
ii. Darwish invested an additional RM35,000.
iii. Service revenue for the year amounted to RM520,000 and expenses were RM360,000.

Danish and Darwish share their income and losses on a 3:1 basis.

**Required**

(a) Prepare the closing entries as at 31 December 2019 for the D&D Architect. (5 marks)

(b) Prepare a partners' capital statement for 2019. Show all working. (5 marks)

**Continued…**

**Part B**

Nana & Nini Partners Company had the following balances as at 31 December 2019: Cash RM50,000, Non-cash assets RM555,000, Liabilities RM210,000, and Capital, Nana RM185,000 and Capital, Nini RM210,000. Currently the partnership is liquidated, and thus cash amounted RM561,000 was received for the sale of non-cash assets. Nana and Nini both sharing income on 2:3 basis.

**Required**

Based on above information, prepare the journal entries to record the liquidation of Nana & Nini Partners Company. Show all workings. (5.5 marks)

**Part C**

ABS Pest Control set up their company on 1 January 2017. The trial balance for ABS Pest Control at the end of 31 December 2019 is presented below:

ABS Pest Control

Trial Balance 31 December 2019

| | Debit (RM) | Credit (RM) |
|---|---|---|
| Cash | 8,200 | |
| Accounts Receivable | 5,500 | |
| Supplies | 3,940 | |
| Equipment | 9,200 | |
| Accounts Payable | | 1,040 |
| Notes Payable (3 months ,8%) | | 15,000 |
| Sales Tax Payable | | 1,300 |
| Unearned Service Revenue | | 2,200 |
| Capital | | 6,400 |
| Service Revenue | | 4,600 |
| Rent Expenses | 1,200 | |
| Depreciation Expenses | 500 | |
| Salaries Expenses | 2,000 | |
| | RM30,540 | RM30,540 |

**Continued…**

The following are selected transactions related to the company's payable in 2019:

1. Unearned service revenue of RM2,000 has been earned at the end of December 2019.
2. Sold 700 units of a pest control set on credit to customers at RM52 per unit plus 4% sales tax. This pest control set is subject to a 1-year warranty.
3. ABS Pest Control owe its employees total salaries of RM2,500.
4. The notes have been issued on 1 November 2019. The accrued interest on 31 December.
5. Paid state treasurer's department for sales taxes payable in December 2019 RM 1,500.

**Required**

(a) Prepare the journal entries to record the above transactions during year.

(5.5 marks)

(b) Prepare the current liability section of ABS Pest Control Company's Statement of Financial Position as at 31 December 2019.

(4 marks)

(Total: 25 marks)

**End of Paper**